



May 4, 2006

Honorable Mayor and City Council:

This letter serves to transmit the Five-Year Capital Improvement Program (CIP) for your consideration. The City Council will review this document during a work session later this month. Beforehand, the Planning Commission will have reviewed the document for conformance with the General Plan.

The draft before you contains description sheets for each current project, as well as identified future projects. In addition, an overview of program changes is offered in the "Project Changes and Modifications" section beginning on page 10.

Given the Council's decision relative to developing a two-year operating budget, this CIP budget has been developed in accordance with this policy direction. Although the CIP still presents a five-year planning document, it was developed with the expectation that next year – the second year of the two-year budget process – there will be an abbreviated review by the City Council and, except for unusual circumstances, no new projects will be added.

The CIP submitted for your consideration responds to direction noted by the Council. The listed projects represent a significant investment in the City's infrastructure.

I am pleased to note that, as a result of a \$1,000,000 contribution from DUC Housing Partners, the CIP recommends that the City begin the process to develop a new main library. With this first step, and with the planned donation of \$10,000,000 from Calpine, the City should be in a good position to establish a funding foundation from which to pursue bond or alternate funding.

As has been the case for the past several years, the CIP directly relates to the Council's goals and objectives related to livable streets and maintaining public infrastructure. The City's sidewalk rehabilitation program continues its successful efforts to repair sidewalk throughout the City; \$4 million has been programmed for such work over the next five years. On a similar note, the installation of new sidewalks near schools and other heavily traveled areas has been a positive addition, and staff has tried to coordinate the new sidewalk projects with needed street reconstruction work. In total, approximately \$3.7 million has been allocated through FY 2010-11 for projects related to pedestrian and bicyclist needs. Additionally, in the context of updating the Bicycle Master Plan, staff proposes to begin looking at the possible reuse of inactive Union Pacific right-of-way for bicycle and pedestrian pathways, as suggested in the South Hayward BART plan. ADA-accessible sidewalk ramps also continue to be a point of emphasis, as additional projects totaling over \$600,000 are included in the CIP. These and other expenditures designed to benefit and encourage pedestrian and other non-vehicular activity are highlighted in the Livable Streets section of the CIP.

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Projects related to upgrades of the City's system of streets and roadways are well-represented within the CIP; much of the funding towards this effort is derived from federal and local sources, such as Gas Tax and Measure B. Both the reconstruction and rehabilitation of the City's streets continues to be a major priority, as approximately \$20.4 million are scheduled to be spent within the next 5 years.

An important and significant transportation project is the Route 238 Corridor Improvement Project. In 2005-06, preparation of the Environmental Impact Report (EIR) was initiated. The draft and final EIR is scheduled to be submitted to you in FY 2006-07. Another important roadway project currently underway and scheduled for completion later this year is the West A Street Realignment. This project will realign West A Street from Hesperian to Golf Course Road, thereby improving access to the airport, as well as providing proper ingress and egress for the new retail center at Hesperian Boulevard and A Street.

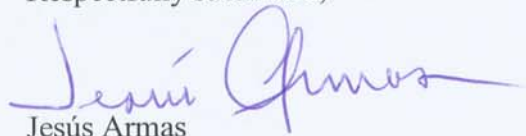
As noted previously, a strong emphasis on public infrastructure improvements continues to be addressed in the CIP. The most notable projects scheduled for next year in the water system funds include the initiation of design work on four new reservoirs, a 1.5 million gallon replacement of two smaller tanks at the Highland 250 pump station, one and possibly two new 3 million gallon replacements for the High School Reservoir above City Center Drive, and replacement of the 1 million gallon Highland 1000 Reservoir off of La Mesa Drive with a new 2 million gallon reservoir. These new reservoirs address both seismic concerns and storage needs identified in previous studies. Funding for these and other projects in the water system funds come from water facilities fees and approximately \$6.5 million in borrowing.

The City's sewer system funds also continue to include significant dollars to upgrade this portion of Hayward's infrastructure. Work continues on one of the largest projects in the City's history, the \$55.4 million improvements to the Water Pollution Control Facility (WPCF). Scheduled to be completed by FY 2007-08 and funded through connection fees and borrowing from the State Revolving Fund loan program, this project will ensure that the WPCF can accommodate City discharges, while meeting NPDES standards through 2020. Other key projects related to the City's sewer system include a new primary clarifier and sewer improvements in West Tennyson Road.

As in past years, the 2006-07 CIP continues to address improvements to the Hayward Executive Airport, which are based on the Airport Master Plan. For fiscal years 2006-07 through 2010-11, expenditures at the Airport are projected to exceed \$13 million dollars. Much of the funding for these projects will come from projected Federal Aviation Administration (FAA) grants under the Airport Improvement Program, as well as transfers from the Airport operating fund. Two of the larger projects scheduled for completion in FY 2006-07 are the construction of a north side helipad and the construction of a new exit taxiway.

In conclusion, attached to this letter is a summary of the key assumptions that were used in preparing the Five-Year CIP. The staff and I look forward to discussing projects and issues embodied in this capital plan.

Respectfully submitted,


Jesús Armas
City Manager

ATTACHMENT A

2006-2007 Five-Year Capital Improvement Program Working Assumptions

1. *Interest Rates:* *Rate of return on existing fund balances - 4% per year.*
 Projected interest rate on City borrowing - based on current market
 information - 5.0% per year.
2. *Construction Inflation Rate: 5% per year.*
3. *Monies received from Gas Tax have been escalated at about one percent per year through 2010-11, and transfers to the General Fund from the Gas Tax Fund to support eligible expenditures have been projected to increase at one percent per year.*
4. *Revenues received from Proposition 111 (Gas Tax) have also been escalated at one percent per year through 2010-11.*
5. *Transfers of Gas Tax Fund monies to the General Fund are assumed in the amount of \$1,370,000 in 2006-07, increasing to \$1,422,000 in 2010-11.*
6. *Based on projections provided by the Alameda County Transportation Improvement Authority, anticipated revenue from a portion of the Measure B program dedicated to local transportation is assumed to be \$1,846,000 in 2006-07, \$1,901,000 in 2007-08 (an increase of 3 percent), and to increase at an estimated 3 percent per year to \$2,077,000 in 2010-11.*
7. *Monies received from the portion of Measure B funding dedicated to pedestrian and bicycle improvements are assumed to be \$392,000 in 2006-07 and \$404,000 in 2007-08 (an increase of 3 percent), and to increase at an estimated 3 percent per year to \$442,000 in 2010-11.*
8. *Transfers of \$240,000 per year from the Route 238 Trust Fund to the Street System Improvements Fund in 2006-07 through 2010-11 are assumed to continue support for the New Sidewalk Program.*
9. *Re-establishment of the \$350,000 per year transfer from the General Fund to the Transportation System Improvement Fund in 2006-07 through 2010-11 is assumed to provide funding for transportation projects.*
10. *The Governor's Traffic Congestion Relief Program (TCRP) established under Proposition 42 was re-instituted during FY 2005-06 and the Governor's proposed budget would fill the 2006-07 Proposition 42 gap resulting in approximately \$550,000 in revenue to the City during FY 2006-07; funds received under this program will be applied towards street maintenance projects. The budget assumes this amount of funding will continue in 2007-08 and beyond.*

11. *Although not shown as a specific project since PG&E will do the work, use of an estimated \$9,600,000 in Rule 20A monies allotted to the City will allow for completion of the undergrounding of utilities on Mission Boulevard from Sycamore Avenue to Arrowhead Way. Based on Rule 20A allocations to date, it is projected that this will use our allocation through the year 2009.*
12. *A transfer from the General Fund to the Street Lighting fund in the amount of \$320,000 for 2006-07 (and each year thereafter) is projected to continue at this level through 2010-11. The transfers will fund debt service through fiscal year 2008-09 and fund street lighting associated with undergrounding of utilities on Mission Boulevard as well as the continuing need to purchase new and replacement lights when required for safety and security.*
13. *Planned transfers from the sewer and water operating funds to the capital funds, \$45,000,000 in borrowing for the Sewer System and \$6,500,000 in borrowing for the Water System, allows for critical capital projects identified in the Sewer and Water System Master Plan Updates, as well as the Water and Sewer Seismic Study, to be accomplished.*
14. *Continued transfers from the Airport Operations Fund provide funding for Airport Capital Improvement Projects identified in the Airport Master Plan.*
15. *The Program reflects expected cash flow in future program years and Council appropriations carried forward in the current year.*

CAPITAL IMPROVEMENT PROGRAM SUMMARY

CIP OVERVIEW AND PROCESS:

The Capital Improvement Program (CIP) is a planning document for the upcoming five-year period, and is a separate and distinct document from the City's operating budget. However, to better coordinate it with the two-year operating budget process, a comprehensive CIP process only occurs every other year. In the second year, no new projects are added to the program except in unusual circumstances, the first two years of the program are updated, and the review process is abbreviated. The CIP contains revenue and expenditure estimates for public infrastructure projects (street construction and improvements, sewer and water systems upgrades), seismic retrofitting of public facilities, airport projects, replacement of major equipment, and other miscellaneous projects. The CIP does not actually fund projects; a capital budget is adopted annually by the City Council to authorize spending on the projects represented in the CIP.

The City of Hayward's capital program is supported through a variety of funding sources. A large portion of the projects in the CIP are in restricted-use funds, such as the Gas Tax, Measure B, and enterprise (e.g., Sewer, Water, Airport) funds. In years in which the General Fund is able to support capital projects, it provides a source of revenue for general capital needs. In addition, City staff has been successful in recent years in obtaining capital projects financing from outside funding sources such as state and federal grant programs.

During a comprehensive CIP process, revenue estimates are projected by staff, and capital project requests are submitted by City departments for evaluation by an internal capital infrastructure review committee. The recommended Five-Year Capital Improvement Program is compiled and presented to the Planning Commission for conformance with the General Plan, to the City Council CIP Committee, and then to the full Council at a work session. A public hearing at which the public is invited to comment on the proposals in the CIP is conducted at the same time as the operating budget public hearing. The capital spending plan for the upcoming year is adopted by the Council by resolution along with the operating budget. Capital projects are budgeted on a life-to-date basis, and modifications are made to the CIP when additional funds become available or expenditure projections are refined.

2006-07 CAPITAL IMPROVEMENT BUDGET:

The City of Hayward's 2006-07 capital budget totals about \$54 million, with approximately \$161 million programmed for the period 2006-07 through 2010-11. Based on the current plan, project expenditures decrease after 2007-08 as the result of the anticipated completion of several major projects over the next two years. As the CIP undergoes its updates, however, it is likely that new projects will be identified and budgeted. The CIP also includes a list of additional identified capital needs, which for the current period totals about \$100 million.

The Capital Improvement Program contains 15 funds in which projects are funded and programmed: Gas Tax (210), Measure B - Local Transportation (211), Measure B - Pedestrian & Bicycle (212), Capital Improvement (410), Street System Improvement (413), Transportation System Improvement (420), Street Lighting (422), Route 238 Trust (430), Sewer Capital Improvement (613), Sewer Collection Replacement (614), Water Pollution Control Facility Replacement (616), Water Capital Improvement (622), Water System Replacement (623), Regional Water Intertie Capital (627), and Airport Capital (632).

Major project expenditures in the 2006-07 capital budget, not previously identified, include the following:

* Pavement Rehabilitation 2006-07 - Districts 9, 12, and 13 (210)	1,400,000
* New Library – Programming/Design (410)	1,000,000
* Pavement Rehabilitation - Huntwood, Santa Clara, and Whitman (413)	1,000,000
* Dixon Area Sewer Improvement Project (614)	1,100,000
* Co-Generation Alternative – Study and Implementation (616)	900,000
* Main 480V MCC Electrical Distribution Repairs (616)	820,000
* New 1.5 MG Reservoir at Highland 250 Reservoir (622)	4,000,000
* 250-500 16” Transmission Main Replacement - Highland Boulevard (623)	1,400,000

Major continuing project expenditures in the 2006-07 capital budget include the following:

* Pavement Rehabilitation 2005-06 - Districts 8 & 11 (210)	1,400,000
* Pavement Rehabilitation 2005-06 (211)	1,400,000
* Pavement Rehabilitation 2006-07 (211)	1,400,000
* Downtown Sidewalk & Streetscape Rehabilitation (410)	2,800,000
* West A Street Realignment - Hesperian to Golf Course Road (413)	4,930,000
* Rte 238 Corridor Improvement Project - Prelim Engineering, EIR, & Admin (430)	1,719,000
* West Tennyson Road Sewer Improvement (613)	5,514,000
* Construction Management Services - Phase I (613)	1,800,000
* WPCF Improvements - Phase I (613)	55,400,000
* New Primary Clarifier (613)	2,430,000
* Existing Trickling Filter Rehabilitation and Seismic Retrofit (616)	3,300,000
* Enclose Effluent Contact Channel (616)	3,100,000
* Enclose Effluent Channel (616)	5,100,000
* Two New 3.0 MG Reservoirs at High School Reservoir Site (622)	9,950,000
* Main Replacements: Jackson, Mission, Pontiac, Meek, Glade, Winton, Grand (623)	3,000,000
* Highland 1000 Reservoir Replacement (623)	3,475,000
* Replace 16” Water Line near Mission & Willis (623)	2,165,000
* Regional Water Intertie Facilities (627)	15,667,000
* Skywest T-Hangar Paving (632)	1,880,000
* Skywest T-Hangar Construction (632)	2,260,000
* North Side Helipad - Construction (632)	1,300,000
* New Exit Taxiway “Foxtrot” (632)	1,600,000
* Relocate Taxiway Zulu - Construction (632)	1,947,000

OPERATING BUDGET IMPACTS

In developing the CIP, the impact of new projects on the operating budget is considered, although formal analysis of potential direct and indirect costs is not performed. However, the informal method of addressing the need for this information is in the form of general notations, which are included on the project description pages of those projects known to have impacts on the operating budget. Many of the capital projects listed above will likely have minimal operations and maintenance impacts on the operating budget. In fact, the introduction of new infrastructure into the City's systems can be expected to result in long-term savings due to decreased maintenance requirements associated with older infrastructure.